



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2017 Biennium

<b>Bill #</b>	SB0148
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<b>Title:</b>	Provide for the welfare fraud prevention act
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<b>Primary Sponsor:</b>	Smith, Cary
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<b>Status:</b>	As Introduced
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|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact     | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns   |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts           | <input type="checkbox"/> Dedicated Revenue Form Attached |

### **FISCAL SUMMARY**

	<b><u>FY 2016 Difference</u></b>	<b><u>FY 2017 Difference</u></b>	<b><u>FY 2018 Difference</u></b>	<b><u>FY 2019 Difference</u></b>
<b>Expenditures:</b>				
General Fund	\$3,278,505	\$4,574,687	\$1,822,446	\$1,841,430
State Special Revenue	\$82,048	\$72,443	\$73,529	\$73,736
Federal Special Revenue	\$2,887,040	\$4,196,501	\$1,323,451	\$1,331,339
<b>Revenue:</b>				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0
Federal Special Revenue	\$2,887,040	\$4,196,501	\$1,323,451	\$1,331,339
<b>Net Impact-General Fund Balance:</b>	<u><u>(\$3,278,505)</u></u>	<u><u>(\$4,574,687)</u></u>	<u><u>(\$1,822,446)</u></u>	<u><u>(\$1,841,430)</u></u>

**Description of fiscal impact:** SB 148 establishes a computerized system to verify identity and eligibility for public assistance programs via a third party provider contract. It also requires a verification process for the identity and eligibility of each applicant and recipient of public assistance by the Department of Public Health and Human Services (DPHHS), including discrepancy resolution and requires reoccurring reports to the Governor, Legislature and Legislative auditor offices on general data and findings related to the eligibility verification system. If SB 148 is passed, the DPHHS will require 25.0 FTE while the Department of Justice (DOJ) will require 1.0 FTE.

**FISCAL ANALYSIS****Assumptions:****DPHHS**

## 1) General

- a) SB 148 requires the department and vendor to establish annualized savings realized from the implementation of a computerized income, asset, and identity eligibility verification system (verification system).
- b) If there are any cost savings as a result of the activities required SB 148, they will not be sufficient to cover on going costs of the verification system as required in New Section 2, Section 4 of SB 148.

## 2) Technology Services

- a) DPHHS assumes that the agency will use existing data on providers currently stored and utilized by the Medicaid Management Information System (MMIS) to meet the requirements in New Section 7 of SB 148. Programming changes, estimated at 200 hours, will be required in the MMIS to provide the information required in an electronic format. Current estimate of contracted programming time is \$125 per hour. Total estimated cost to meet the requirements of this section of SB 148 is \$25,000. The MMIS is funded at an enhanced Medicaid rate of 25% general funds and 75% federal funds.
- b) New Section Section 2 of SB 148 requires the department to establish a computerized income, asset, and identity eligibility verification system to assist the agency in in the determent of waste, fraud, and abuse of public assistance programs.
- c) The development of a computerized income, asset, and identity verification system to meet the requirements of SB 148 would consist of the need for the following contracted services:
  - i) Independent Verification and Validation (IV&V) –The IV&V allows a third party to verify and validate that the terms, scope of work, and requirements of the development contract are being met by both the contracting and contractor parties, and to provide an unbiased opinion of the project.
  - ii) Project Planning – The department would contract with an independent contractor to assist with the development of an Alternative Analysis, Feasibility Study, and a Request for Proposal (RFP) for the project. This process includes requirements analysis of what would be needed in a system to meet the requirements of SB 148, including any third party system interfaces, to go into the RFP; an alternative analysis to determine possible alternatives to developing a new system, purchasing a commercial off the shelf product (COTS), or enhancing an existing system; and a feasibility study to determine the feasibility of the project.
  - iii) Project Management - It is standard industry IT practice that for development of a system of the size and scope of the one necessary to meet the requirements of SB 148, there be project management to oversee the coordination of the various aspects, processes, and steps necessary to successfully complete the project. A project manager would work with the IV&V and RFP contractors, the development contractor and agency staff to coordinate the project, lead requirements meetings, review and assist with the writing of the RFP, Alternative Analysis, Feasibility Study, and the development contract; manage the progress of the project, including the project schedule and deliverables; and assist with ensuring that the project is on schedule and within budget.
  - iv) Design, Development and Implementation (DDI) – the DDI contractor is the one that completes the requirements identified in the RFP and the statement of work for the system, including any necessary interfaces with existing systems to gather and coordinate information gathering and verifications.
- d) DPHHS estimates that the length of time necessary to properly determine requirements, alternatives, feasibility, and scope of the project and for the design, development and implementation of the system will be two years.
- e) Project planning including the writing of a feasibility study, the production of an alternative analysis, systems requirements specification, requirements traceability matrix documentation, and the writing of a

RFP, including evaluation criteria and an evaluation plan, and other planning activities are estimated to take approximately six months. Costs for this service are estimated to be \$500,000.

- f) Project Management contracted services are estimated to be \$30,000 per month and are estimated to last the 18 months of the project for a total cost of \$540,000.
- g) Independent Verification and Validation is expected to last 18 months of the project time frame. These activities, including production of weekly and monthly project status reports, are estimated to cost \$750,000.
- h) DPHHS utilizes the Combined Health Information and Montana Eligibility System (CHIMES) platform for eligibility determination for Medicaid, Healthy Montana Kids, TANF, and SNAP benefits. This is an enterprise architecture platform that allows for the sharing of common client information, business processes, and payment processing. Significant enhancements would need to be made to these systems as well as the enterprise platform to add and/or update/expand existing interfaces to interact with the new verification system. Enhancement work will require approximately 5,100 hours of programming time at a cost of \$125 per hour for a total cost of \$637,500.
- i) The department utilizes numerous systems for client recipient services. Interfaces between these systems and the new verification system will need to be added and/or updated. It will take approximately 2,500 programming hours to add and/or update interfaces to these systems at a cost of \$125 per hour for a total cost of \$312,500.
- j) Based on the requirements in SB 148, this analysis assumes that the new computerized income, asset, and identity eligibility verification system will need to be a separate system and not comingled with any of the existing eligibility determination systems in the agency. This system will need to interface with multiple systems across the agency as well as with other state and federal programs. A conservative estimate for the design, development and implementation of such a system is \$5,000,000. This is based on using industry standards for project system development estimations.
- k) New Section, Section (3)(2)(e) requires that the department will match identity information against national and local financial institutions in order to locate undisclosed assets. This asset verification is separate from the initial asset verification processed under the above identified system due to the specific nature of interfacing with and researching financial institutions and laws governing the sharing of this private information. A conservative estimate to build this asset verification system is \$2,000,000 using industry standards for project system development estimations.
- l) To meet federally required security and audit compliance for protected private information of these two systems would require the services of 1.00 FTE computer security analyst. Salary and benefits for this position are estimated to be \$67,063, one-time only office set up costs are estimated to be \$2,875, and ongoing computer network connectivity, phone and supplies are estimated to be \$1,418 annually.
- m) This analysis assumes the requirement of 1.00 FTE business analyst for the management of the maintenance and operations contract and activities of these systems. Salary and benefits for this position are estimated to be \$81,468, one-time only office set up costs are estimated to be \$2,875, and ongoing computer network connectivity, phone and supplies are estimated to be \$1,418 annually.
- n) The ongoing maintenance and operations of these systems is estimated to be \$600,000 annually.
- o) Annual costs are estimated to increase by 1.5%.
- p) Federal A-87 regulations require that the development of IT systems be cost allocated appropriately between the benefiting systems. Information systems development is considered an administrative function under SNAP, TANF and Medicaid. Current funding for federal participation under SNAP is 50%, and under TANF is 53%. Federal participation for Medicaid administrative costs, including program integrity which this activity falls under, is 50%. For purposes of this fiscal note, funding for this system development assumes that all three public assistance programs would benefit equally from the activity required in SB 148. Therefore the estimated funding mix for the IT work necessary to enact SB 148 is 49% general funds and 51% federal funds.

## 3) Child Support Enforcement Division

- a) Verification would be done by DPHHS and not the third party vendor in compliance with federal law. Confidential child support information cannot be shared with third party vendors.
- b) Income information of amounts paid would be provided for custodial parents.
- c) Employment information would be provided for the non-custodial parent.
- d) Costs to interface the available income and employment information would be subsumed under our current system IT maintenance contract.

## 4) Disability Employment and Transitions Division

- a) The Vocational Rehabilitation and Blind Services (VRBS) program serves approximately 8,600 clients annually; and the Montana Telecommunications Access Program (MTAP) serves approximately 800 clients annually. Total number of clients served is estimated at 9,400 annually.
- b) The identity verification for new applicants and current recipients is estimated to take 7 minutes per individual to verify which would equate to 4,387 hours of staff time (9,400 clients x 7 minutes per client x 4 quarterly verifications per year). The additional staff hours would require two additional Human Services Specialists. Salary and benefits for 2.00 FTE are estimated at \$51,172 per FTE annually for FY 2016 and FY 2017. One-time-only cost for office setup and computer would be needed in FY 2016 for a total of \$5,750 (\$1,600 office + 1,275 computer = \$2,875 x 2.00 FTE = \$5,750).
- c) Annual SITSD and phone services for 2.00 FTE would cost an estimated \$2,836 (\$1,112 SITSD + \$306 phone = \$1,418 x 2.00 FTE = \$2,836) in FY 2016 and increase by 1.5% annually.
- d) Annual rent for 2.00 FTE is estimated for FY 2016 at \$3,600 (\$1,800 x 2.00 FTE) and is assumed to increase 1.5% annually.
- e) Under Section 2, part 4 of SB 148, no annual savings will occur. See the technical note below for further explanation.
- f) Under Section 2, part 5 of SB 148, a fee based on a per-applicant rate would have a fiscal impact to the division. However, the effects of the fiscal impact cannot be determined.
- g) For the Disability Determination Services (DDS) bureau, no fiscal impact is anticipated.
- h) There is no fiscal impact for Section 9 of SB 148 for the division. These activities are already currently being performed.
- i) Funding for VRBS is 21.3% general fund and 78.7% federal. Funding for MTAP is 100% state special revenue.

## 5) Director's Office

- a) This analysis assumes that there will be required administrative rules changes as a result of the activities required in SB 148. Due to the personal identifying information SB 148 requires the department to gain access to and the extent in which the rules might contain language regarding personal identifying information language, it is not feasible to determine the number of pages in the rules that would require changes. Administrative Rules changes cost \$50 per page.

## 6) Human &amp; Community Services Division

- a) The Public Assistance Bureau (PAB) will need to hire 19.0 FTE. To run verifications quarterly instead of annually, two additional Compliance Specialist Supervisors will be necessary in the PAB for each of two verification programs: PARIS (checks for duplicate benefits issued in other states) and DIFSLA (links with IRS records for income verification). In addition, the auto-comparison from the new enhanced eligibility verification system is expected to generate data discrepancy reports. If SB 148 passes, DPHHS will need to hire a unit of 15 additional Compliance Specialist staff, including two supervisors, in order to evaluate and process the discrepancies. Salary and benefits of \$68,490 x 17 FTE or \$1,164,330 for FY 2016 and 2017 and \$79,299 x 2 supervisory FTE or \$158,598 for FY 2016 and 2017. A 1.5% inflationary adjustment is applied in FY 2018 and FY 2019 for a total cost of \$1,181,795 for 17 Compliance Specialists and \$160,977 for the two supervisors per year.

- b) In the first year, two testing staff will be needed in PAB with salary and benefits of \$68,033 x 2 FTE or \$136,066 for FY 2016, and \$138,107 in FY 2017 through FY 2019.
- c) Each Child Care Resource & Referral contractor will need to hire an additional staff person to assist with the quarterly verifications and review of data discrepancies. This will increase contracted services by \$704,704 (\$64,064 per contractor times 11 contractors = \$704,704) in the first year and an additional 1.5% each year thereafter.
- d) One Data Analyst in Early Childhood Services Bureau (ECSB) will be needed to provide oversight of contractors at a cost for salary and benefits of \$70,334 in FY 16 and FY 17, and \$71,389 in FY 18 and FY 19.
- e) A total of 22 FTE in the Division will need a one-time only office setup and computer for a cost of \$2,875 each or \$63,250.
- f) Annual SITSD and phone services for 1.0 FTE will cost \$1,418 in the first year for a total of \$31,196 in the first year for 22 workers, then decreasing to 20 workers for a cost of 28,785 reflecting an increase of 1.5% for that year and each year following.
- g) Annual rent for one FTE is \$3,600. That number extrapolated for 22.0 FTE costs \$79,200 in the first year, and for 20.0 FTE, it would cost \$73,080 in the 2<sup>nd</sup> year, reflecting a 1.5% increase for that year and each year following.
- h) Most of the programs paying public assistance benefits are expected to have a savings in benefits as a result of fraudulent recipients being removed. The cost savings is not estimable for Child Care Scholarship program, SNAP benefits, TANF Cash Assistance, and LIEAP programs. A savings in weatherization benefits would not be realized because there is a priority list and any ineligible recipient would be removed allowing the next family on the priority list to be weatherized. There is no cost savings to commodities programs as commodity food is not a cost to the programs, rather it is donated by USDA.

**DOJ**

- 7) If SB 148 passes, the DOJ will require 1.0 FTE for a criminal investigator with salary and benefits of \$80,689 in FY 2016, and \$80,601 in FY 2017.
- 8) Estimated operating costs are \$27,964 in FY 2016 and \$22,564 in FY 2017. This analysis includes FY 2016 one-time-only start up purchases of approximately \$5,400. Other operating costs, such as travel, meals, office supplies, cellular phone, rent, and other office supplies and service will cost approximately \$22,564 in FY 2016 and FY 2017.
- 9) Personal service and operating costs are expected to increase at a rate of 1.5% per year for FY 2018 and FY 2019.
- 10) For security and privacy reasons, this position will require an equipment purchase of \$21,500 in FY 2016 for a small sport utility vehicle.

	<b><u>FY 2016 Difference</u></b>	<b><u>FY 2017 Difference</u></b>	<b><u>FY 2018 Difference</u></b>	<b><u>FY 2019 Difference</u></b>
<b><u>Fiscal Impact:</u></b>				
FTE - DPHHS	25.00	24.00	24.00	24.00
FTE - DOJ	1.00	1.00	1.00	1.00
<b>FTE Total</b>	<b>26.00</b>	<b>25.00</b>	<b>25.00</b>	<b>25.00</b>
<b><u>Expenditures:</u></b>				
Personal Services	\$1,794,009	\$1,726,351	\$1,752,247	\$1,757,318
Operating Expenses	\$4,432,084	\$7,117,280	\$1,467,179	\$1,489,187
Equipment	\$21,500	\$0	\$0	\$0
<b>TOTAL Expenditures</b>	<b>\$6,247,593</b>	<b>\$8,843,631</b>	<b>\$3,219,426</b>	<b>\$3,246,505</b>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$3,278,505	\$4,574,687	\$1,822,446	\$1,841,430
State Special Revenue (02)	\$82,048	\$72,443	\$73,529	\$73,736
Federal Special Revenue (03)	\$2,887,040	\$4,196,501	\$1,323,451	\$1,331,339
<b>TOTAL Funding of Exp.</b>	<b>\$6,247,593</b>	<b>\$8,843,631</b>	<b>\$3,219,426</b>	<b>\$3,246,505</b>
<b><u>Revenues:</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$0
Federal Special Revenue (03)	\$2,887,040	\$4,196,501	\$1,323,451	\$1,331,339
<b>TOTAL Revenues</b>	<b>\$2,887,040</b>	<b>\$4,196,501</b>	<b>\$1,323,451</b>	<b>\$1,331,339</b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$3,278,505)	(\$4,574,687)	(\$1,822,446)	(\$1,841,430)
State Special Revenue (02)	(\$82,048)	(\$72,443)	(\$73,529)	(\$73,736)
Federal Special Revenue (03)	\$0	\$0	\$0	\$0

**Technical Notes:****DPHHS**

1. Under the Code of Federal Regulations (CFR), regulations require under 2 CFR 200.406 that any credits that offset or reduce federal expenses, such as recoveries or indemnities on losses, must be credited to the federal award. As such the vendor would need to reimburse the department for any recoveries so that the department could credit the appropriate federal program. Under SB 148, Section 2(4), there would be no available savings equal to or greater than the cost to the state of implementing the verification system. As such, only the fee per applicant provision under SB 148, Section 2(5) would be available as income to the vendor.
2. Pursuant to Section 5(5b) of SB 148, the department would only have the ability to correct errors on state-owned databases.
3. In general, many of the services provided under VRBS are not benefit payments, but rather are services provided by agency staff such as job coaching, transportation, training, and counseling. These types of costs may not be recoverable if a change in eligibility is discovered based on SB 148.

4. The activities outlined in SB 148 violate the USDA WIC regulations for income and program eligibility per USDA WIC Regulation: 7 CFR Ch. 11 Part 246.7 (d).

**Department of Labor and Industry**

5. Section 3 (1) (b): Employers do not presently report on a weekly or monthly basis employee wages to the Department of Labor and Industry, and do not report those wages earned in a calendar quarter separated on a by-the-week or by-the-month basis.
6. Section 3 (1) (d) indicates that wage reporting and similar information maintained by states contiguous to this state must be included in the verification system. Montana, as a course of business, does not hold and maintain wages of states contiguous to the state of Montana. Montana has access to view wages in other states and can only request the use of the wages in the event the wages are not currently being used on a claim. Not all states participate in this reciprocal program. The ability to view and use these wages is expressly reserved for the administration of the Unemployment Insurance Program and the establishment of a claim.

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*Sponsor's Initials*

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*Date*

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*Budget Director's Initials*

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*Date*